Glossary MIF ESG Preference

The purpose of definitions below is to help you to understand terms related to sustainability preferences.

In a nutshell:

"Sustainability preferences" have been defined by the EU Markets In Financial Instruments Regulation (MiF) as one or more of the following preference(s):

(a) Minimum proportion of environmentally sustainable investments (as defined by EU Taxonomy regulation);
Taxonomy is a tool translating the climate and environmental objectives into clear criteria, to create a common language around green activity. The weighted average of taxonomy-aligned investments of a fund is based on the share of taxonomy-aligned economic activities of investee companies.

(b) SFDR Minimum proportion of sustainable investments (as per the EU Sustainable Finance Disclosure Regulation – SFDR);
meaning an investment in an economic activity that contributes to an environmental[1] or a social[2] objective.

(c) Consideration of Principal Adverse Impacts (PAI) on sustainability factors as per SFDR meaning the negative effects on environmental, social and employee matters as well as respect for human rights, anti-corruption and anti-bribery[3] resulting from AXA IM investment decision.

Clients are asked about their investment choices in terms of desired sustainability. The expression of those preferences is translated into a concrete product or service offering.

For further information about the EU sustainable finance regulations (Taxonomy, SFDR sustainable investment and consideration of PAI):

EU Taxonomy regulation:

General principle and purpose: The EU Taxonomy is a classification system identifying economic activities that are environmentally sustainable based on technical and science-based criteria. This regulation has been developed in the context of the European Green Deal. The aim of the EU taxonomy is to protect investors from greenwashing, help companies to become more environmentally friendly and help shift investments where they are most needed.

Climate and environmental objectives of the Taxonomy regulation: The EU Taxonomy defines 6 environmental objectives: climate change adaptation, climate change mitigation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

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[1] E.g. by **key resource efficiency indicators** on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy,

[2] in particular an investment that **contributes to tackling inequality or that fosters social cohesion,** social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities.

[3] The PAI are evaluated by **14 mandatory indicators (9 environmental & 6 social factors). For real estate products, the regulation provides only PAI in relation to « Environmental » factors**. For Sovereign exposures, the regulation provides 2 PAI mandatory indicators (one environmental and one social).

Only the first two taxonomy objectives, climate change adaptation and climate change mitigation, are applicable since the January 1st, 2022. The provisions on the other four objectives would be applicable on the January 1st, 2023[4].

Since January 1st, 2022, asset managers have to explain how they use the taxonomy system to determine the sustainability of their investments. They also have to disclose what percentage of their investments are in line with the taxonomy.

Asset managers are expected to rely upon issuers reporting against the technical criteria introduced by the Taxonomy regulation. Nonetheless it is important to note that the Taxonomy regulation is still not broadened to the European and non-European issuers and issuers are not publishing today their alignment to EU Taxonomy.

Taxonomy alignment: An economic activity is considered as aligned to the EU Taxonomy if it meets 3 criteria: (i) the activity contributes to at least one environmental objective, (ii) the activity does not harm other environmental objectives, (iii) the activity passes specific minimum safeguards mainly relating to labor and human rights. EU Taxonomy regulation defines clear criteria to take into consideration in order to meet each of those criteria.

AXA IM is relying on an external data provider to analyse the Financial Product's alignment to the EU Taxonomy. At this stage those analysis are done in a context of low data availability. Corporates are not reporting widely on their sustainability and alignment to EU Taxonomy. This is expected to improve in the coming years thanks to regulations entering into force, and in this context local supervisors have advised to adopt a cautious approach.

SFDR minimum proportion of sustainable investment:

Sustainable investment is defined in the SFDR regulation that aims at bringing transparency to investors through disclosures on the sustainability objective and investment strategy of a Financial Product. Under this regulation, a sustainable investment is defined as (i) contributing to at least one environmental or social sustainable objective, (ii) not harming other sustainability themes and (iii) ensuring good governance practice of the investee companies.

AXA IM has defined a framework for sustainable investment, as follows:

(i) The investee company contributes positively to sustainability through two possible dimensions:
   a. Either the investee company contributes to at least one of the United Nations Sustainable Development Goals (UN SDGs) with a best-in-universe approach. This contribution can be achieved either via Products & Services or Operations, taking into account the fact that some SDGs are mostly addressable through operational excellence. Quantitative results can be overridden by the qualitative analysis performed by the ESG & Impact Research team.
   b. Or the issuer is engaged in a solid Transition Pathway based notably on the framework developed by the Science Based Targets Initiative – consistently with the EC ambition to help fund the transition to a 1.5°c world.

(ii) It ensures that it does not harm significantly any other sustainability themes with the mitigation of Principal Adverse Impacts indicators[5]. Principal adverse impacts are mitigated through sectorial exclusion policies and AXA IM ESG standards that are applied bindingly at all times by the Financial

[4] Delegated Act on the 4 other environmental objectives has not been published as of June 2022

[5] The PAI are evaluated by **14 mandatory indicators (9 environmental & 6 social factors). For real estate products, the regulation provides only PAI in relation to « Environmental » factors**. For Sovereign exposures, the regulation provides 2 PAI mandatory indicators (one environmental and one social).

Product. Principal Adverse Impact indicators are also mitigated through the exclusion of issuers having a significant negative impact on any SDG and/or having a CCC ESG rating.

Where relevant, Stewardship policies are an additional risk mitigation on principal adverse impacts through direct dialogue with companies on sustainability and governance issues. Through our engagement activities, we use our influence as investors to encourage companies to mitigate environmental and social risks relevant to their sectors. Voting at general meetings is an important element of our dialogue with investee companies in order to foster sustainable long-term value of the companies in which we invest and mitigate adverse impacts.

A thematic filter is applied to ensure PAI are mitigated on environmental, social and governance pillars.

- Environmental

Relevant AXA IM policies	PAI indicator
Climate Risks policy Ecosystem Protection & Deforestation policy	PAI 1: Green House Gas emissions (GHG) (scope 1, 2, & 3 starting 01/2023)
	PAI 2: Carbon Footprint
	PAI 3: GHG intensity of investee company
Climate Risks policy	PAI 4: Exposure to Companies active in the fossil fuel sector
Climate risks policy (engagement only)	PAI 5: Share of non-renewable energy consumption and production
Ecosystem Protection & Deforestation policy	PAI 7: Activities negatively affecting biodiversity sensitive areas

- Social and Governance:

Relevant AXA IM policies	PAI indicator
Voting and Engagement policy with systematic voting criteria linked with board gender diversity	PAI 13: Board Gender diversity
ESG standards policy: violation of international norms and standards	PAI 10: Violations of UN Global Compact principles & OECD Guidelines for multinational enterprises
Controversial weapons policy	PAI 14: Exposure to controversial weapons

Other PAI indicators are considered quantitatively based on available data.

An additional filter is applied on sustainable investments that the Financial Product intends to make. This filter requires to exclude investee companies that have a significant negative impact on any UN Sustainable Development Goals.

(iii) It ensures good governance practices of the investee companies:

The Financial Product doesn't invest in companies which cause, contribute or are linked to violations of international norms and standards in a material manner, focusing in particular on UN's Global Compact Principles, International Labor Organization's (ILO) Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs). Those standards notably focus on Human Rights, Society, Labor and Environment.

In addition, ensuring good governance practices is also addressed by the engagement policies. AXA IM implemented a comprehensive active ownership strategy – engagement and voting – where AXA IM acts as stewards of investments made on the clients' behalf. AXA IM views engagement as a means for investors to influence, shape and shift investee company policies and practices to mitigate risks and secure long-term value. Governance practices of companies are engaged at first level by the portfolio managers and dedicated ESG analysts when meeting companies' management team. It is through the long-term investor status and in-depth knowledge of the investment targets that AXA IM feels legitimate to engage in a constructive but demanding dialogue with them. More details on AXA IM Corporate Governance & Voting policy are available on : Our Policies | AXA IM Corporate (axa-im.com)

Consideration of Principal Adverse Impacts (PAI):

They designate negative externalities on environment, society or governance. SFDR regulation defines a set of indicators for both climate and environment-related adverse impacts and adverse impacts on social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. To be noted that for real estate products, the regulation provides only PAI in relation to Environmental factors.

AXA IM Financial Products consider Principal adverse impacts with both (i) qualitative and (ii) quantitative approaches:

(i) Qualitative approach to consider principal adverse impact is based on exclusion and, where relevant, stewardship policies. Exclusion policies part of the AXA IM ESG standards cover the most material sustainability factors' risks and are applied bindingly on a continuous basis. Where relevant, stewardship policies are an additional risk mitigation on principal adverse impacts through direct dialogue with companies on sustainability and governance issues. Through our engagement activities, we use our influence as investors to encourage companies to mitigate environmental and social risks relevant to their sectors. Voting at general meetings is an important element of our dialogue with investee companies in order to foster sustainable long-term value of the companies in which we invest and mitigate adverse impacts.

Through those exclusion and stewardship policies the Financial Product takes into consideration potential negative impact on those specific PAI indicators:

	Relevant AXA IM policies	PAI indicator
Climate and other environment related indicators	Climate Risks policy Ecosystem Protection & Deforestation policy	PAI 1: Green House Gas emissions (GHG) (scope 1, 2, & 3 starting 01/2023)
		PAI 2: Carbon Footprint
		PAI 3: GHG intensity of investee company

	Climate risks policy (engagement only)	PAI 5: Share of non-renewable energy consumption and production
	Ecosystem Protection & Deforestation policy	PAI 7: Activities negatively affecting biodiversity sensitive areas

	Relevant AXA IM policies	**PAI indicator**
Social and employee, respect for human rights, anti-corruption and anti-bribery matter	Voting and Engagement policy with systematic voting criteria linked with board gender diversity	PAI 13: Board Gender diversity
	ESG standards policy: violation of international norms and standards	PAI 10: Violations of UN Global Compact principles & OECD Guidelines for multinational enterprises
	Controversial weapons policy	PAI 14: Exposure to controversial weapons

(ii) Principal adverse impacts are also considered quantitatively through the PAI indicators' measurement and reported annually in the SFDR annex to the fund's periodic reporting. The objective is to provide transparency to investors on significant negative impact on other sustainability factors. AXA IM measures all the mandatory PAI indicators, plus additional optional environmental indicator and additional optional social indicator.